

**JEFFERSON COUNTY NURSING HOME**  
**(a component unit of Jefferson County)**

**Financial Statements and Supplemental Schedules**

**June 30, 2014 and 2013**

**(With Independent Auditors' Report Thereon)**



**LATTIMORE BLACK MORGAN & CAIN, PC**  
CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

**JEFFERSON COUNTY NURSING HOME**  
**(a component unit of Jefferson County)**

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**LATTIMORE BLACK MORGAN & CAIN, PC**  
CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

## INDEPENDENT AUDITORS' REPORT

The Board of Directors  
Jefferson County Nursing Home  
Dandridge, Tennessee

### *Report on the Financial Statements*

We have audited the accompanying financial statements of Jefferson County Nursing Home (the "Nursing Home") a component unit of Jefferson County, Tennessee, which comprise the statements of net position as of June 30, 2014 and 2013, and the related statements of revenue, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of Jefferson County Nursing Home as of June 30, 2014 and 2013 and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## *Other Matters*

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 3-9 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Supplemental Schedules*

Our audits were conducted for the purpose of forming an opinion on the basic financial statements. The supplemental schedules as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### *Other Reporting Required by Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2014 on our consideration of the Nursing Home's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Nursing Home's internal control over financial reporting and compliance.

*Zaffimare Black Morgan & Cain, PC*

Knoxville, Tennessee  
October 23, 2014

**JEFFERSON COUNTY NURSING HOME**  
**(a component unit of Jefferson County)**

**Management's Discussion and Analysis**

**June 30, 2014, 2013, and 2012**

As management of Jefferson County Nursing Home ("JCNH" or "Nursing Home"), we offer readers of the financial statements this narrative overview and analysis of the financial performance during the years ended June 30, 2014, 2013 and 2012. Please read this analysis in conjunction with JCNH's financial statements.

**FINANCIAL HIGHLIGHTS**

JCNH's net position decreased by \$46,279 for the year ended June 30, 2014, increased by \$404,117 for the year ended June 30, 2013 and decreased \$222,506 for the year ended June 30, 2012.

JCNH produced income from operations of \$271,573, \$713,776 and \$86,554 for years ended June 30, 2014, 2013 and 2012, respectively.

Operating revenues decreased by 0.7% for the year ended June 30, 2014 and increased 2.7% for the year ended June 30, 2013. Operating revenues were flat for the year ended June 30, 2012. Operating expenses increased 3.2% for the year ended June 30, 2014, decreased 2.7% for the year ended June 30, 2013 and increased 1.0% for the year ended 2012.

**USING THESE ANNUAL FINANCIAL STATEMENTS**

Jefferson County Nursing Home is considered a "component unit" of Jefferson County, Tennessee. Component units are separate legal entities; however, Jefferson County is financially accountable for the nursing home. Therefore, Jefferson County reports financial information regarding the nursing home in its annual report.

The Nursing Home is an enterprise fund, operating much like a private-sector company and is considered a business-type activity of Jefferson County. The Nursing Home charges residents for the services it provides.

This annual report of the Jefferson County Nursing Home consists of a series of financial statements. The Statements of Net Position, the Statements of Revenue, Expenses and Changes in Net Position, and the Statements of Cash Flows (which begin on page 10) provide information about the nursing home's operations. These statements include all assets and liabilities of the Nursing Home using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the Nursing Home's revenues and expenses for the years ended June 30, 2014 and 2013 are taken into account regardless of when cash is received or paid.

The Statements of Net Position and the Statements of Revenue, Expenses and Changes in Net Position report the Nursing Home's net position and changes in them. The term "net position" is the difference between assets and liabilities as of a certain point in time. The financial health, or financial position, of the Nursing Home can be measured in part by the amount of its net position. Over time, increases or decreases in the Nursing Home's net position are one indicator of whether its financial health is improving or deteriorating. Of course, there are other non-financial factors in assessing the overall health of the Nursing Home, such as quality of patient care and the base of potential Nursing Home residents in the area.

**JEFFERSON COUNTY NURSING HOME**  
(a component unit of Jefferson County)

**Management's Discussion and Analysis**

**June 30, 2014, 2013, and 2012**

**NURSING HOME DETAILS**

The Nursing Home's operations produced operating income of \$271,573 and \$713,776 for years ended June 30, 2014 and 2013, respectively. After adding nonoperating revenues and expenses, the total decrease in the Nursing Home's net position for the year ended June 30, 2014 was \$46,279 and the total increase in net position for the year ended June 30, 2013 was \$404,117. The unrestricted net position - the part of the net position that can be used to finance day-to-day operations without constraints established by legal requirements or board designations - increased from \$1,203,459 at June 30, 2013 to \$1,362,438 at June 30, 2014, an increase of \$158,979. The unrestricted net position increased from \$579,098 at June 30, 2012 to \$1,203,459 at June 30, 2013, an increase of \$624,361.

Total revenue of the Nursing Home decreased \$81,633 or 0.7% during 2014 compared to 2013. Medicare days increased 3.5% (281 days) in 2014 but commercial insurance skilled days decreased by 390 days. Medicaid reimbursement rates for non-skilled services increased in 2014 but were offset by a reduction in Medicaid bed days. The nursing home did not receive any additional payments for acuity level of non-skilled Medicaid patients in 2014 compared to \$119,408 in 2013. Total revenue of the Nursing Home increased \$315,659 or 2.7% during 2013 compared to 2012. The 2013 increase was primarily comprised of increased commercial insurance revenue of \$279,101 and increased Medicare Part A revenue of \$119,015. Medicare days increased 5.4% in 2013 to offset reimbursement reductions. Medicaid reimbursement rates increased in 2013 but were offset by a reduction in Medicaid bed days. The Medicaid portion of chargeable days was 32,880 out of a total of 56,196, or 58.5% for 2014, and was 33,418 out of a total of 56,598, or 59.1%, for 2013. Medicaid revenue was 47.8% of total revenue for both 2014 and 2013, and continues to constitute a significant portion of the Nursing Home's revenue. The Medicare portion of chargeable days was 8,250 out of a total of 56,196, or 14.7%, for 2014, and was 7,969 out of a total of 56,598, or 14.1%, for 2013. Medicare Parts A & B revenue was 28.5% and 27.7% of 2014 and 2013 total revenue, respectively.

In order to compete with other nursing homes and assisted living facilities, the Nursing Home is continually evaluating its services and making changes in order to give the very best care to residents. Historically, Jefferson County Nursing Home has had a waiting list of persons awaiting admission to the home. With that in mind, a construction project began a few years ago which added 25 beds to the facility effective May 24, 2010. The vision for this addition was unique and forward thinking, in that the new space was to be a home where the residents enjoy an excellent quality of care and life. One of the newest concepts in the nursing home industry is that of Green House homes, which fit the vision for the bed addition. According to The Greenhouse Project's web-site, the Green House model is a de-institutionalization effort designed to restore individuals to a home in the community by combining small homes with the full range of personal care and clinical services expected in high-quality nursing homes. Apart from the construction costs, the Nursing Home incurred significant expenses in developing this project and implementing the conceptual framework.

Jefferson County Nursing Home continued with Phase II of construction, which consisted of renovations to the Legacy Building. Construction began during the fiscal year ended June 30, 2011 and was completed in October, 2012. The Nursing Home management believes the addition was necessary to serve the residents of Jefferson County now and into the future, demonstrated by the fact that the Nursing Home consistently has prospective residents on their waiting list.

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**Management's Discussion and Analysis**

**June 30, 2014, 2013, and 2012**

Over the past several years, there has been an increase in the availability of assisted living facilities which has caused, in part, the acuity of patients entering the Nursing Home to increase. This increased frailty causes the residents to be more dependent on Nursing Home staff to help them with the basic activities of daily living and to take care of their progressively complicated medical needs. Residents rely on the Nursing Home staff to keep them clean, fed and safe. Perhaps more importantly, the work of our Nursing Home staff requires more than just completing tasks. Jefferson County Nursing Home strives to maintain a high quality of care, recognizing that the nursing home is "home" for our residents. Our staff must have time to just talk with and build relationships with residents in order to help residents develop a good quality of life. Quality care provided by Certified Nursing Assistants ("CNA") and professional nurses in our nursing home takes time and costs money. In order to maintain staffing levels with quality personnel, Jefferson County Nursing Home has to provide comparable compensation and benefit packages with other nursing homes and hospitals.

The costs associated with maintaining staffing and providing benefits has continued to rise. Over the long run, adequate staffing can actually prevent additional costs; there is a correlation between low staffing levels and the likelihood of quality problems, including avoidable hospitalizations, deteriorating activities of daily living and increased incidence of pressure sores, weight loss and poor resident hygiene. There is also some cost savings to be realized through adequate staffing by reducing expenses related to staff injuries, and frequent recruiting and training. The Nursing Home's overall staffing levels were maintained on average at a 5% lower level during 2014 and 2013 compared to 2012; however, wage and benefit cost increases resulted in an overall increase in salaries, wages and benefits of approximately \$217,000 in 2014 compared to 2013.

Jefferson County Nursing Home's percentage of occupancy was 96.23% for the year ended June 30, 2014, which was a decrease from the 96.91% percentage of occupancy for the year ended June 30, 2013, which had increased from the 96.71% occupancy percentage for the year ended June 30, 2012. As stated earlier, due to the increased frailty for many of the Nursing Home residents, the residents' life spans after entering the Nursing Home are not as long as in the past, which can result in an increase in turn-around times on filling available beds, an increase in empty bed days, and a decrease in occupancy rates and revenues.

Participation in the Medicaid and Medicare programs requires the Nursing Home's commitment to following all the rules and regulations promulgated by these government programs. These regulations are ever changing and require the Nursing Home personnel to continue to learn through educational programs and seminars as well as on the job experience. Jefferson County Nursing Home's procedures and collections with respect to the Medicaid/Medicare programs have improved significantly over the past several years.

Jefferson County Nursing Home has a significant number of residents who qualify for Medicaid assistance. The Medicaid program reimburses the Nursing Home based on its operating costs which are reported on its annual cost report and is submitted to the State of Tennessee Comptroller's Office. The Nursing Home is limited as to the amount that it can charge Level 1 Medicaid patients for their rooms on a daily basis (the per-diem amount). The Nursing Home's per-diem rate for Medicaid intermediate care facility ("ICF") patients was \$165.07 and \$170.57 for the years ended June 30, 2013 and 2014, respectively. For Medicaid skilled nursing facility

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**Management's Discussion and Analysis**

**June 30, 2014, 2013, and 2012**

("SNF") patients, the per-diem rate was \$178.41 and \$176.66 for the years ended June 30, 2013 and 2014, respectively. The per-diem rate for private pay residents in private rooms was \$173.00 for the period February 1, 2012 through November 30, 2012, \$178.00 for the period December 1, 2012 through December 31, 2013 and \$181.00 for the period January 1, 2014 through June 30, 2014. The per-diem rate for private pay residents in semi-private rooms was \$163.00 for the period July 1, 2011 through November 30, 2012, \$168.00 for the period December 1, 2012 through December 31, 2013 and \$171.00 for the period January 1, 2014 through June 30, 2014.

Operating costs increased 3.2% for the year ended June 30, 2014 primarily related to increased costs for salaries, wages and benefits, while 2013 operating costs decreased by 2.7% from 2012 primarily related to maintaining slightly lower staffing levels (see discussion above). The Nursing Home administration feels that maintaining a quality level of personnel at competitive wage rates and rewarding job performance is a key factor to the Nursing Home's success in providing the best quality of life that it can for its residents (see discussion above).



**JEFFERSON COUNTY NURSING HOME**  
(a component unit of Jefferson County)

**Management's Discussion and Analysis**

**June 30, 2014, 2013, and 2012**

The following tables summarize the nursing home's Net Position (Table 1), and Changes in Net Position (Table 2) for years ended June 30, 2014, 2013 and 2012:

**Table 1**  
**Net Position**

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Current and other assets	\$ 2,428,351	\$ 2,039,018	\$ 1,669,624
Capital assets	<u>8,132,049</u>	<u>8,512,318</u>	<u>8,775,638</u>
Total assets	<u>10,560,400</u>	<u>10,551,336</u>	<u>10,445,262</u>
Due to primary government outstanding	(7,075,000)	(7,065,000)	(7,240,000)
Other liabilities	<u>(1,041,144)</u>	<u>(995,801)</u>	<u>(1,118,844)</u>
Total liabilities	<u>(8,116,144)</u>	<u>(8,060,801)</u>	<u>(8,358,844)</u>
Net position:			
Net investment in capital assets	1,067,049	1,272,318	1,409,765
Restricted component of net position - expendable	14,769	14,758	16,738
Unrestricted	<u>1,362,438</u>	<u>1,203,459</u>	<u>659,915</u>
Total net position	<u>\$ 2,444,256</u>	<u>\$ 2,490,535</u>	<u>\$ 2,086,418</u>

**Table 2**  
**Changes in Net Position**

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Revenue:			
Routine services	\$ 8,433,157	\$ 8,520,646	\$ 8,091,622
Medicare - Part A revenue	3,036,466	2,934,624	2,815,609
Medicare - Part B ancillaries	303,879	338,500	515,008
Other	15,837	17,165	21,836
Less: (bad debts) recoveries	<u>(57,278)</u>	<u>2,078</u>	<u>47,469</u>
Total revenue	11,732,061	11,813,013	11,491,544
Expenses:			
General and administrative	2,550,236	2,493,206	2,470,767
Bed license tax	356,000	356,000	356,000
Nursing	4,260,167	4,152,067	4,370,098
Activities and social services	258,825	209,050	217,011
Dietary	999,192	978,724	1,017,375
Housekeeping	275,030	252,751	284,395
Laundry & linen	177,051	171,976	154,055
Plant operation and maintenance	613,050	520,106	576,241
Ancillary services expense	1,250,776	1,183,440	1,206,772
Drugs	323,698	403,956	421,625
Depreciation	396,706	380,885	337,385
Interest	<u>317,609</u>	<u>306,735</u>	<u>302,326</u>
Total expenses	<u>11,778,340</u>	<u>11,408,896</u>	<u>11,714,050</u>
Increase (decrease) in net position	<u>\$ (46,279)</u>	<u>\$ 404,117</u>	<u>\$ (222,506)</u>

**JEFFERSON COUNTY NURSING HOME**  
(a component unit of Jefferson County)

**Management's Discussion and Analysis**

**June 30, 2014, 2013, and 2012**

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

At June 30, 2014 Jefferson County Nursing Home had \$8,132,049 invested in net capital assets, the majority of which was invested in buildings (\$7,010,463). The remaining capital assets consisted of land, land improvements, vehicles and equipment. Net capital assets decreased by \$380,269 and \$263,320 in 2014 and 2013, respectively and increased by \$1,185,680 during the year ended June 30, 2012. The decrease and increases were net of current year additions and current year depreciation. Capital asset additions during year ended June 30, 2012 were primarily from the renovation of the Legacy Building. A more detailed asset addition listing is included in Table 4 below.

The following tables summarize the nursing home's capital assets for the years ended June 30, 2014, 2013 and 2012 (Table 3) and capital asset additions (Table 4).

Table 3  
Capital Assets at June 30, (net of depreciation)

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Land	\$ 7,181	\$ 7,181	\$ 7,181
Land improvements	148,234	161,344	127,455
Buildings	7,010,463	7,227,060	6,400,777
Construction in progress	-	-	1,292,788
Motor vehicles	31,896	47,782	63,668
Equipment	934,275	1,068,951	883,769
Totals	<u>\$ 8,132,049</u>	<u>\$ 8,512,318</u>	<u>\$ 8,775,638</u>

Table 4  
Current Year Additions - at Cost

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Building	\$ 7,729	\$ 69,322	\$ 866,178
Land improvements	-	44,138	21,008
Fixed equipment	-	-	-
Movable equipment	9,618	7,703	642,996
Transportation equipment	-	-	-
Total Additions	<u>\$ 17,347</u>	<u>\$ 121,163</u>	<u>\$ 1,530,182</u>

**JEFFERSON COUNTY NURSING HOME**  
**(a component unit of Jefferson County)**

**Management's Discussion and Analysis**

**June 30, 2014, 2013, and 2012**

**Debt**

At June 30, 2014, the nursing home had \$7,285,000 payable in outstanding debt to Jefferson County relating to bond issuances. \$4,525,000 of the balance relates to bonds that were issued on December 2, 2007 ("Series 2007"). The purpose of the bond issue was to fund the addition to the nursing home. The remaining \$2,760,000 of the balance relates to bonds that were issued on May 15, 2014 ("Series 2014") which were issued to refund \$2,540,000 of the original Series 2007. The bonds are general obligation improvement and refunding bonds of Jefferson County; however, the nursing home will be responsible for paying all principal and interest due on the bonds. More extensive information concerning the bond issue can be found in Note 7 of the financial statements.

The nursing home has other current liabilities due at June 30, 2014, including normal accounts payable, salaries payable and vacation leave payable.

**Medicaid/TennCare Reimbursement Changes**

The State of Tennessee passed House Bill No. 1783 on April 14, 2014 and was signed by the governor on April 30, 2014. The legislation amended TN Code Annotated, Title 68 and Title 71, relative to nursing homes. The amendment replaces the TN nursing home tax with a Nursing Facility Assessment Fee ("NFAF") effective July 1, 2014. The NFAF will be equal to 4.5% of the net patient service revenue through June 30, 2015. The Nursing Home will receive additional payments from the State related to the acuity (average facility case mix index scores) during fiscal year ended June 30, 2015. The State intends to transition to a new acuity based Medicaid system on July 1, 2015. The management of the Nursing Home is monitoring the potential financial impacts of the changes.

**Nursing Home Officials - June 30, 2014**

**Board of Directors:**

**Alan Palmieri, Chairman**  
**Todd Kesterson**  
**Linda Franklin, Treasurer**  
**E. M. Rogers, Secretary**  
**Murrel Jarnigan**

**Administration:**

**Roger L. Mynatt, Administrator**  
**Rebecca D. Woods, Assistant Administrator**

**CONTACTING THE NURSING HOME'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the citizens, taxpayers, patients and their families, and creditors with a general overview of the Nursing Home's finances and to show the Nursing Home's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Jefferson County Nursing Home's business office at 914 Industrial Park Road, Dandridge, Tennessee 37725.

**JEFFERSON COUNTY NURSING HOME**  
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**Statements of Net Position**

**June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
<b>Assets:</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 1,310,002	\$ 1,053,359
Restricted Cash held by Jefferson County for interest payments (Note 7)	114,300	-
Patient accounts receivable, less allowance for uncollected accounts of \$13,800 and \$4,742 in 2014 and 2013, respectively	790,745	911,067
Inventories	27,200	34,715
Prepaid expenses	23,276	20,419
Estimated third-party payor settlements	<u>37,659</u>	<u>-</u>
<b>Total current assets</b>	<u>2,303,182</u>	<u>2,019,560</u>
<b>Restricted assets:</b>		
Cash - scholarships for employees	14,769	14,758
Cash held by Jefferson County for interest payments (Note 7)	<u>105,700</u>	<u>-</u>
<b>Total restricted assets</b>	<u>120,469</u>	<u>14,758</u>
<b>Property and equipment, net</b>	8,132,049	8,512,318
<b>Land held for investment</b>	<u>4,700</u>	<u>4,700</u>
<b>Total assets</b>	<u>\$ 10,560,400</u>	<u>\$ 10,551,336</u>

See accompanying notes to the financial statements.

**JEFFERSON COUNTY NURSING HOME**  
(a component unit of Jefferson County)

**Statements of Net Position**

**June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
<b>Liabilities:</b>		
<b>Current liabilities:</b>		
Current portion due to primary government	\$ 210,000	\$ 175,000
Accounts payable	307,855	278,760
Accrued expenses:		
Salaries and wages	194,607	192,008
Vacation/holiday pay	228,942	215,876
Payroll taxes	36,186	16,090
Employee retirement	21,800	25,120
Interest	25,507	26,080
Other	16,247	15,712
Estimated third-party payor settlements	<u>-</u>	<u>51,155</u>
<b>Total current liabilities</b>	<b>1,041,144</b>	<b>995,801</b>
 Due to primary government, excluding current portion	 <u>7,075,000</u>	 <u>7,065,000</u>
<b>Total liabilities</b>	<b><u>8,116,144</u></b>	<b><u>8,060,801</u></b>
 <b>Net position:</b>		
Net investment in capital assets	1,067,049	1,272,318
Unrestricted	1,362,438	1,203,459
Restricted component of net position - expendable	<u>14,769</u>	<u>14,758</u>
<b>Total net position</b>	<b><u>\$ 2,444,256</u></b>	<b><u>\$ 2,490,535</u></b>

See accompanying notes to the financial statements.

**JEFFERSON COUNTY NURSING HOME**  
(a component unit of Jefferson County)

**Statements of Revenue, Expenses and Changes in Net Position**

**Years ended June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
<b>Operating revenue:</b>		
Patient service revenue, net of provisions (recoveries) for bad debts of \$57,278 and \$(2,078) in 2014 and 2013, respectively	\$ 11,716,224	\$ 11,795,848
Other income	16,080	18,089
Satisfaction of donations restriction	<u>-</u>	<u>2,000</u>
<b>Total operating revenue</b>	<u>11,732,304</u>	<u>11,815,937</u>
<b>Operating expenses:</b>		
General and administrative	2,550,236	2,493,206
Tennessee nursing home tax	356,000	356,000
Nursing	4,260,167	4,152,067
Activities	85,578	72,086
Social services	173,247	136,964
Dietary	999,192	978,724
Housekeeping	275,030	252,751
Laundry and linen	177,051	171,976
Plant operation and maintenance	613,050	520,106
Ancillary services expenses	1,250,776	1,183,440
Drugs	323,698	403,956
Depreciation	<u>396,706</u>	<u>380,885</u>
<b>Total operating expenses</b>	<u>11,460,731</u>	<u>11,102,161</u>
<b>Operating income</b>	<u>271,573</u>	<u>713,776</u>
<b>Nonoperating revenues (expenses):</b>		
Interest income - investments and interest bearing accounts	656	2,654
Loss on disposal of capital assets	(910)	(3,598)
Interest expense	<u>(317,609)</u>	<u>(306,735)</u>
<b>Nonoperating revenues (expenses)</b>	<u>(317,863)</u>	<u>(307,679)</u>
<b>Excess of revenue over (under) expenses</b>	(46,290)	406,097
<b>Restricted component of net position - expendable:</b>		
Interest income	11	20
Net position released from restrictions	<u>-</u>	<u>(2,000)</u>
<b>Increase (decrease) in net position</b>	<u>(46,279)</u>	<u>404,117</u>
Net position - July 1, 2012 as previously reported	-	2,196,436
Prior period adjustment (Note 11)	<u>-</u>	<u>(110,018)</u>
Net position - July 1, 2012, as restated	<u>-</u>	<u>2,086,418</u>
Net position - July 1, 2013	<u>2,490,535</u>	<u>-</u>
<b>Net position at end of year</b>	<u>\$ 2,444,256</u>	<u>\$ 2,490,535</u>

See accompanying notes to the financial statements.

**JEFFERSON COUNTY NURSING HOME**  
(a component unit of Jefferson County)

**Statements of Cash Flows**

**Years ended June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Receipts from and on behalf of patients	\$ 11,747,732	\$ 11,603,054
Payments to suppliers for goods or services	(5,838,148)	(5,743,270)
Payments to employees for services	(5,159,148)	(4,993,240)
Other receipts and payments, net	<u>16,080</u>	<u>20,089</u>
Net cash provided by operating activities	<u>766,516</u>	<u>886,633</u>
Cash flows from capital and related financing activities:		
Principal paid on long-term debt	(175,000)	(165,000)
Interest paid on long-term debt	(318,182)	(324,781)
Purchases of property and equipment	(17,347)	(243,836)
Decrease in cash restricted for construction costs	-	58,978
Proceeds from long-term debt	220,000	-
Increase in cash restricted for financed interest payments	<u>(220,000)</u>	<u>-</u>
Net cash used by capital and related financing activities	<u>(510,529)</u>	<u>(674,639)</u>
Cash flows from investing activities:		
Proceeds from sale of investments	-	174,046
Investment income	<u>656</u>	<u>2,654</u>
Net cash provided by investing activities	<u>656</u>	<u>176,700</u>
Increase in cash and cash equivalents	256,643	388,694
Cash and cash equivalents at beginning of year	<u>1,053,359</u>	<u>664,665</u>
Cash and cash equivalents at end of year	\$ <u>1,310,002</u>	\$ <u>1,053,359</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 271,573	\$ 713,776
Adjustments to reconcile operating income to cash provided by operating activities:		
Depreciation	396,706	380,885
Provision for bad debts	57,278	(2,078)
(Increase) decrease in operating assets:		
Patient accounts receivable	63,044	(210,566)
Estimated third-party payor settlements	(37,659)	-
Inventories	7,515	(416)
Prepaid expenses	(2,857)	(2,644)
Increase (decrease) in operating liabilities:		
Accounts payable	29,095	10,149
Accrued expenses	32,976	(22,323)
Estimated third-party payor settlements	<u>(51,155)</u>	<u>19,850</u>
Net cash provided by operating activities	\$ <u>766,516</u>	\$ <u>886,633</u>

See accompanying notes to the financial statements.

**JEFFERSON COUNTY NURSING HOME**  
**(a component unit of Jefferson County)**

**Notes to the Financial Statements**

**June 30, 2014 and 2013**

**(1) Nature of operations**

Jefferson County Nursing Home (Nursing Home) is a political subdivision of Jefferson County, Tennessee ("County"). The Nursing Home provides long-term health care primarily for the citizens of the County. It is governed, operated and controlled by a five-member board of commissioners who are appointed by the Board of County Commissioners of the County. The County is legally obligated to assume the nursing home's debt in the event of default and is legally obligated to provide financial support, making the County financially accountable for the Nursing Home. Therefore, the Nursing Home constitutes a component unit of the County for financial reporting purposes.

**(2) Summary of significant accounting policies**

**(a) Basis of presentation**

The Nursing Home utilizes the proprietary fund method of accounting whereby revenues and expenses are recognized on the accrual basis, which is an economic resources measurement focus approach to accounting. In December 2010, the Governmental Accounting Standards Board ("GASB") issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflow of Resources, and Net Position*. GASB 62 and 63 were effective for periods beginning after December 15, 2011. GASB 62 makes the GASB *Accounting Standards Codification* the sole source of authoritative accounting technical literature for governmental entities in the United States of America.

**(b) Inventories**

Inventories are stated at the lower of cost, determined on the first-in, first-out (FIFO) basis, or market (net realizable value).

**(c) Cash, cash equivalents and investments**

For the purpose of the statement of cash flows, cash and cash equivalents are defined as cash on hand or in banks and investments with original maturities at date of purchase of less than three months, excluding assets limited as to use.

All of the Nursing Home's cash and cash equivalents are covered by federal depository insurance or collateralized by securities held by the financial institutions' trust department in the Nursing Home's name.



**JEFFERSON COUNTY NURSING HOME**  
(a component unit of Jefferson County)

**Notes to the Financial Statements**

**June 30, 2014 and 2013**

**(d) Fair value measurements**

Fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, fair value accounting standards establish a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity including quoted market prices in active markets for identical assets (Level 1), or significant other observable inputs (Level 2) and the reporting entity's own assumptions about market participant assumptions (Level 3). The Nursing Home does not have any fair value measurements using significant unobservable inputs (Level 3) as of June 30, 2014 or 2013.

**Financial assets**

The carrying amount of financial assets, consisting of cash and cash equivalents, patient accounts receivable, prepaid expenses, accounts payable, accrued expenses and current portions of long-term debt approximate their fair value due to their relatively short maturities. Long-term debt is carried at amortized cost, which approximates fair value.

**Non-financial assets**

The Nursing Home's non-financial assets, which include property and equipment, are not required to be measured at fair value on a recurring basis. However, if certain triggering events occur, or if an annual impairment test is required and the Nursing Home is required to evaluate the non-financial instrument for impairment, a resulting asset impairment would require that the non-financial asset be recorded at fair value. During the years ended June 30, 2014 and 2013, the Nursing Home did not measure any non-financial assets at fair value or recognize any amounts in the statements of revenue, expenses and changes in net position related to changes in fair value for non-financial assets.

**(e) Property and equipment**

Property and equipment acquisitions are recorded at cost. The Nursing Home capitalizes purchases that cost a minimum of \$5,000 and have a useful life greater than two years. Assets are depreciated on a straight-line basis over their estimated useful lives as follows: land improvements 10-12 years; buildings and improvements 10-40 years; equipment 4-20 years, and transportation equipment 5-7 years.

**JEFFERSON COUNTY NURSING HOME**  
(a component unit of Jefferson County)

**Notes to the Financial Statements**

**June 30, 2014 and 2013**

**(f) Patient service revenue**

The Nursing Home has agreements with third-party payors that provide for payments to the Nursing Home at amounts different from its established rates. Payment arrangements include prospectively determined per diem rates per day and discounted charges. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Patient service revenue is net of contractual adjustments of approximately \$248,000 and \$156,000 for the years ended June 30, 2014 and 2013, respectively.

**(g) Operating activities**

The Nursing Home defines operating activities as reported on the Statements of Revenue, Expenses and Changes in Net Position as those that generally result from exchange transactions, such as payments for providing services and payments for goods and services received. Non-exchange transactions, including investment income and interest expense, are considered non-operating revenue and expenses.

**(h) Costs of borrowing**

Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Interest cost of \$17,505 was capitalized during the year ended June 30, 2013.

**(i) Pension plan**

Nursing Home employees are covered under The Tennessee Consolidated Retirement System, a defined benefit plan. The Nursing Home's costs are charged to expense and funded annually.

**(j) Compensated absences**

The Nursing Home provides its full-time employees with paid days off for holiday, vacation, sick, and bereavement absences. The vacation paid days off begin accruing after one year of service and are based on the table which follows. Such days may be taken only after the employee has earned them. There is no limit on the amount of earned days which may be carried forward if not taken in the year earned. Such liabilities have been accrued in the accompanying statement of net position.

<u>Years of service</u>	<u>Days earned per year</u>
1-10	10
11-20	15
20 or more	20

**JEFFERSON COUNTY NURSING HOME**  
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**Notes to the Financial Statements**

**June 30, 2014 and 2013**

**(k) Risk management**

The Nursing Home is exposed to various risks of loss from medical malpractice; torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; and natural disasters. Commercial insurance is purchased for claims arising from such matters. The Nursing Home insures for employee health claims through a County plan administered by the State of Tennessee discussed in Note 9.

**(l) Net position**

All resources that are not restricted by donors are included in unrestricted net position. Resources temporarily restricted by donors for specific purposes are reported as restricted component of net position - expendable. When specific purposes are achieved, either through passage of a stipulated time or the purpose for restriction is accomplished, they are classified to unrestricted net position and reported in the statement of revenue, expenses and changes in net position. Resources temporarily restricted by donors for additions to property and equipment are initially reported as restricted component of net position - expendable and are transferred to unrestricted net position when expended. Donor-imposed restrictions which stipulate that the resources be maintained permanently are reported as restricted component of net position - unexpendable. Investment income for the restricted component of net position - unexpendable is classified as either restricted component of net position -expendable or unrestricted based on the intent of the donor. As of June 30, 2014 and 2013, there were no restricted component of net position - unexpendable, while there was a restricted component of net position - expendable restricted for employee scholarships as discussed in Note 3.

The Nursing Home first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

**(m) Income taxes**

The Nursing Home as a political subdivision of the County is exempt from federal income taxes pursuant to Section 115 of the Internal Revenue Code.

**(n) Long-lived assets**

Management evaluates the recoverability of its investment in long-lived assets on an ongoing basis and recognizes any impairment in the year of determination. It is reasonably possible that relevant conditions could change in the near term and necessitate a change in management's estimate of the recoverability of these assets.

**(o) Use of estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**JEFFERSON COUNTY NURSING HOME**  
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**Notes to the Financial Statements**

**June 30, 2014 and 2013**

**(p) Performance indicator**

Excess of revenue over (under) expenses reflected in the accompanying statements of revenue, expenses and changes in net position is a performance indicator.

**(q) Adoption of new accounting pronouncements**

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement amends accounting standards relating to the application of FASB Statements that do not contradict GASB pronouncements and incorporates into the GASB authoritative literature certain accounting and financial reporting guidance to bring all authoritative literature together in one place. This amendment was effective for financial statements for fiscal years beginning after December 25, 2011. Therefore the Nursing Home adopted this standard at the beginning of fiscal year 2013.

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflow of Resources, and Net Position*. This statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources and identifies net position as the residual of all other elements presented in a statement of financial position. This amendment was effective for financial statements for fiscal years beginning after December 25, 2011. Therefore the Nursing Home adopted this standard at the beginning of fiscal year 2013.

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities and is effective for financial statements for fiscal years beginning after December 15, 2012. Therefore the Nursing Home adopted this standard at the beginning of fiscal year 2014.

In March 2013, the GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. This statement relates to accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees and is effective for financial statements for fiscal years beginning after June 15, 2013. Therefore the Nursing Home adopted this standard at the beginning of fiscal year 2014.

The adoption of these accounting standards did not have a material impact on the Nursing Home's financial statements.

**JEFFERSON COUNTY NURSING HOME**  
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**Notes to the Financial Statements**

**June 30, 2014 and 2013**

**(r) New accounting pronouncements**

In January 2013, the GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. This statement relates to accounting and financial reporting for government combinations and disposals of government operations and is effective for financial statements for fiscal years beginning after December 15, 2013. Therefore the Nursing Home expects to adopt these standards at the beginning of fiscal year 2015.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB No. 27*. The primary objective of this statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local government employers about financial support for pensions that is provided by other entities. The statement is effective for financial statements for fiscal years beginning after June 15, 2014. Therefore, the Nursing Home expects to adopt this standard at the beginning of fiscal year 2015.

In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68*. The primary objective of this statement is to address an issue regarding application of the transition provisions of Statement No. 68. The statement requires that at transition, an entity recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning of the net pension liability. The provisions of this statement are required to be applied simultaneously with the provisions of Statement No. 68.

The Nursing Home is currently assessing the impact of adopting these accounting standards.

**(s) Reclassifications**

Certain reclassifications have been made to the 2013 financial statements in order for them to conform to the 2014 presentation. These reclassifications have no effect on net position or changes in net position as previously reported.

**(t) Events occurring after reporting date**

The Nursing Home has evaluated events and transactions that occurred between June 30, 2014 and October 23, 2014, which is the date the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

**JEFFERSON COUNTY NURSING HOME**  
**(a component unit of Jefferson County)**

**Notes to the Financial Statements**

**June 30, 2014 and 2013**

**(3) Restricted assets**

Cash in the employee scholarship fund is available to provide scholarships to qualifying employees. Certain donations received are designated to be used for higher education of employees. Deposits to the fund come from private donations and monthly interest earned. The only withdrawals made are to award \$2,000 scholarships to qualifying employees. Scholarships awarded are subject to board approval. One employee received a \$2,000 scholarship during year ended June 30, 2013. No employee received a scholarship during year ended June 30, 2014.

**(4) Third-party reimbursement programs**

The Nursing Home receives revenue under various third-party reimbursement programs which include Medicare, Medicaid, and other third-party payors. Contractual adjustments under third-party reimbursement programs represent the difference between the Nursing Home's billings at its established rates and the amounts reimbursed by third-party payors. They also include any differences between estimated third-party reimbursement settlements for prior years and subsequent tentative or final settlements. There were no adjustments to revenue resulting from tentative or final settlements to estimated reimbursement amounts for the years ended June 30, 2014 and 2013.

**(a) Medicare**

The Nursing Home is paid for substantially all services rendered to Medicare program beneficiaries for skilled nursing care under prospectively determined case-mix rates. Those rates vary according to a classification system that is based on a medical assessment of the rehabilitation needed, extent of services needed, and other factors. The patient is often responsible for a portion of the fee. For the patient portion of fees not collected after normal collection efforts with the filing of an annual cost report, the Nursing Home was reimbursed 100% for such uncollected fees through March 31, 2013; 88% of such uncollected fees for the period April 1, 2013 through March 31, 2014; and is expected to be reimbursed 76% of such uncollected fees after March 31, 2014.

**(b) Medicaid**

The Medicaid program reimburses the Nursing Home for the cost of skilled nursing or routine care services rendered to Medicaid beneficiaries at a prospective rate which is based on the lower of the reimbursable cost of services rendered or a reimbursement cap set by Medicaid for each level of service. The reimbursement cap is expressed as a per diem.

**(c) Commercial payors**

The Nursing Home has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Nursing Home under these agreements includes prospectively determined rates per day and discounts from established rates.

**JEFFERSON COUNTY NURSING HOME**  
(a component unit of Jefferson County)

**Notes to the Financial Statements**

**June 30, 2014 and 2013**

**(d) Credit concentrations**

The Nursing Home grants credit to patients and generally does not require collateral or other security in extending credit; however, it routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits payable under their health insurance programs, plans or policies. At June 30, 2014 and 2013, the Nursing Home had net receivables from the Federal Government (Medicare) of approximately \$515,000 and \$445,000 and from Medicaid of approximately \$184,000 and \$267,000, respectively. Medicare comprised 28% and 28% of net patient service revenue for the years ended June 30, 2014 and 2013, respectively. Medicaid comprised 48% of net patient service revenue for both years.

**(5) Inventories**

A summary of inventories as of June 30, 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>
Food	\$ 12,806	\$ 13,612
Medical supplies	7,313	10,863
Housekeeping	2,776	2,859
Maintenance supplies	<u>4,305</u>	<u>7,381</u>
	<u>\$ 27,200</u>	<u>\$ 34,715</u>

**(6) Property and equipment**

The net investment in capital assets as of June 30, 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>
Property and equipment, net	\$ 8,132,049	\$ 8,512,318
Current portion of long-term debt	(210,000)	(175,000)
Long-term debt, excluding current portion	(7,075,000)	(7,065,000)
Restricted cash for payment of financed interest	<u>220,000</u>	<u>-</u>
	<u>\$ 1,067,049</u>	<u>\$ 1,272,318</u>

**JEFFERSON COUNTY NURSING HOME**  
(a component unit of Jefferson County)

Notes to the Financial Statements

June 30, 2014 and 2013

The major classifications and changes in property and equipment as of and for the years ended June 30, 2014 and 2013 are as follows:

	Balance at July 1, 2013	Additions/ Transfers	Placed in Service/ Retirements	Balance at June 30, 2014
Land	\$ 7,181	\$ -	\$ -	\$ 7,181
Land improvements	230,567	-	-	230,567
Buildings and improvements	9,835,779	7,729	-	9,843,508
Machinery and equipment	2,208,593	9,618	(34,704)	2,183,507
Transportation equipment	100,166	-	-	100,166
	<u>12,382,286</u>	<u>17,347</u>	<u>(34,704)</u>	<u>12,364,929</u>
Less allowance for depreciation and amortization:				
Land improvements	(69,223)	(13,110)	-	(82,333)
Buildings and improvements	(2,608,719)	(224,339)	-	(2,833,058)
Machinery and equipment	(1,139,642)	(143,371)	(33,794)	(1,249,219)
Transportation equipment	(52,384)	(15,886)	-	(68,270)
	<u>(3,869,968)</u>	<u>(396,706)</u>	<u>(33,794)</u>	<u>(4,232,880)</u>
	<u>\$ 8,512,318</u>	<u>\$ (379,359)</u>	<u>\$ (910)</u>	<u>\$ 8,132,049</u>

  

	Balance at July 1, 2012	Additions/ Transfers	Placed in Service/ Retirements	Balance at June 30, 2013
Land	\$ 7,181	\$ -	\$ -	\$ 7,181
Land improvements	186,428	44,139	-	230,567
Buildings and improvements	8,795,052	1,043,959	(3,232)	9,835,779
Machinery and equipment	1,901,045	325,853	(18,305)	2,208,593
Transportation equipment	100,166	-	-	100,166
	<u>10,989,872</u>	<u>1,413,951</u>	<u>(21,537)</u>	<u>12,382,286</u>
Less allowance for depreciation and amortization:				
Land improvements	(58,973)	(10,250)	-	(69,223)
Buildings and improvements	(2,394,275)	(214,531)	(87)	(2,608,719)
Machinery and equipment	(1,017,276)	(140,218)	(17,852)	(1,139,642)
Transportation equipment	(36,498)	(15,886)	-	(52,384)
	<u>(3,507,022)</u>	<u>(380,885)</u>	<u>(17,939)</u>	<u>(3,869,968)</u>
	7,482,850	1,033,066	(3,598)	8,512,318
Construction in progress	<u>1,292,788</u>	<u>(1,292,788)</u>	<u>-</u>	<u>-</u>
	<u>\$ 8,775,638</u>	<u>\$ (259,722)</u>	<u>\$ (3,598)</u>	<u>\$ 8,512,318</u>



**JEFFERSON COUNTY NURSING HOME**  
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Notes to the Financial Statements

June 30, 2014 and 2013

Reconciliation of additions/transfers above to statements of cash flows for the years ended June 30, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Additions/transfers above including construction in progress	\$ 17,347	\$ 121,163
Construction costs payable at June 30, 2012	-	140,178
Interest capitalized, included as interest paid on long-term debt on statements of cash flows	<u>-</u>	<u>(17,505)</u>
Purchases of property and equipment per statements of cash flows	<u>\$ 17,347</u>	<u>\$ 243,836</u>

(7) Due to primary government

A schedule of changes in the Nursing Home's long-term debt to the government of Jefferson County, Tennessee related to bond issuances as of and for the years ended June 30, 2014 and 2013 is as follows:

	<u>Balance at July 1, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Pre-funded Debt Retirement</u>	<u>Balance at June 30, 2014</u>	<u>Amounts Due Within One Year</u>
General Obligation Bonds - 2007 (Balance Due to County)	\$ 7,240,000	\$ -	\$ (175,000)	\$ (2,540,000)	\$ 4,525,000	\$ 180,000
General Obligation Refunding Bonds - 2014 (Balance Due to County)	<u>-</u>	<u>2,760,000</u>	<u>-</u>	<u>-</u>	<u>2,760,000</u>	<u>30,000</u>
	<u>\$ 7,240,000</u>	<u>\$ 2,760,000</u>	<u>\$ (175,000)</u>	<u>\$ (2,540,000)</u>	<u>\$ 7,285,000</u>	<u>\$ 210,000</u>

  

	<u>Balance at July 1, 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at June 30, 2013</u>	<u>Amounts Due Within One Year</u>
General Obligation Bonds - 2007 (Balance due to County)	<u>\$ 7,405,000</u>	<u>\$ -</u>	<u>\$ (165,000)</u>	<u>\$ 7,240,000</u>	<u>\$ 175,000</u>

Jefferson County, Tennessee issued \$8,000,000 General Obligation Bonds, Series 2007 ("Series 2007"), dated December 21, 2007 to fund a 25 bed addition to the Nursing Home. The bonds are direct general obligations of Jefferson County, Tennessee payable from ad valorem taxes levied upon all taxable property within Jefferson County without limitation as to rate or amount. The full faith and credit of Jefferson County, Tennessee is irrevocably pledged to pay principal, redemption premiums, if any, and interest on the bonds. However, because the debt was incurred specifically for the addition to the Nursing Home and the Nursing Home has a legal obligation to repay the debt in full to the County, the bond transactions are reported on the Nursing Home's financial statements as obligations to the County.

The Series 2007 coupon rates range from 4.0% to 4.4% with interest payable in semi-annual payments on June 1 and December 1 and remaining annual principal installments ranging from \$180,000 to \$480,000 each June 1. The final principal installment is due June 1, 2037.

**JEFFERSON COUNTY NURSING HOME**  
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**Notes to the Financial Statements**

**June 30, 2014 and 2013**

Jefferson County, Tennessee issued \$4,285,000 General Obligation Refunding Bonds, Series 2014 ("Series 2014"), dated May 15, 2014 to be used to call certain bond issuances outstanding by the County. The Series 2014 is also a direct general obligation of the County with a similar pledge as the 2007 Series. \$2,540,000 of the Series 2014 proceeds will be used to call a portion of the Series 2007 obligation on June 1, 2016. The \$2,540,000 is held in the name of the County in an escrow account; therefore, the \$2,540,000 transaction is reflected as a pre-funded debt retirement (non-cash activity) by the Nursing Home to the County towards the Series 2007 obligation and has reduced the remaining obligation to the County for the Series 2007 accordingly. \$220,000 of the Series 2014 proceeds will be used to finance the payment of interest on the \$2,540,000 portion of the Series 2007 debt through the June 1, 2016 call date. The \$220,000 is also held in an escrow account in the name of the County. The \$220,000 is reflected as an asset of the Nursing Home and will be expensed as interest when the County uses the funds to pay the bond holders under Series 2007. The Nursing Home has recorded a liability to the County of \$2,760,000 related to the Series 2014 bond issue comprised of the \$2,540,000 and \$220,000 amounts discussed above. The remaining \$1,525,000 of proceeds from Series 2014 relate to County uses other than the Nursing Home.

The Series 2014 coupon rates range from 2.0% to 2.75% with interest payable in semi-annual payments on June 1 and December 1 and annual principal installments ranging from \$30,000 to \$295,000 each June 1. The final principal installment is due June 1, 2027.

A summary of future maturities and interest of long-term debt due to the County related to Series 2007 and Series 2014 bond obligations (excludes the \$2,540,000 pre-funded debt retirement to the County) as of June 30, 2014 is as follows:

<u>Year</u>	<u>Series 2014 Principal</u>	<u>Series 2007 Principal</u>	<u>Estimated Interest</u>	<u>Interest Pre-funded</u>	<u>Payments</u>
2015	\$ 30,000	\$ 180,000	\$ 377,000	\$ (114,000)	\$ 473,000
2016	35,000	190,000	366,000	(106,000)	485,000
2017	35,000	200,000	244,000	-	479,000
2018	240,000	-	235,000	-	475,000
2019	245,000	-	230,000	-	475,000
2020-2024	1,310,000	-	1,073,000	-	2,383,000
2025-2029	865,000	655,000	901,000	-	2,421,000
2030-2034	-	1,920,000	564,000	-	2,484,000
2035-2037	-	1,380,000	123,000	-	1,503,000
	<u>\$ 2,760,000</u>	<u>\$ 4,525,000</u>	<u>\$ 4,113,000</u>	<u>\$ (220,000)</u>	<u>\$ 11,178,000</u>

**JEFFERSON COUNTY NURSING HOME**  
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**Notes to the Financial Statements**

**June 30, 2014 and 2013**

**(8) Pension plan**

Certain employees of the Nursing Home are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979 become vested after five years of service and members joining prior to July 1, 1979 were vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapter 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Political subdivisions such as the Nursing Home participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at [www.treasury.state.tn.us](http://www.treasury.state.tn.us). Copies of footnotes in PDF format can be accessed at <http://www.treasury.state.tn.us/tcrs/PS/>.

The Nursing Home is a political subdivision of the County. The Nursing Home's funding policy and schedule of pension plan funding progress have not been included within the financial statements as these amounts are aggregated with the County. The Jefferson County Annual Financial Report should be read to obtain the aggregated information related to funding policy and schedule of pension plan funding progress. For the years ended June 30, 2014 and 2013, the Nursing Home's annual pension costs were approximately \$573,000 and \$575,000, respectively.

**(9) Commitments and contingencies**

The Nursing Home leases various equipment under short-term operating lease agreements. Rent expense totaled \$10,282 and \$10,885 in 2014 and 2013, respectively.

The Nursing Home is a member of the Local Government Group Insurance Fund ("LGGIF"), a public entity risk pool established to provide a program of health insurance coverage for employees of local governments and quasi-governmental entities that was established for the primary purpose of providing services for or on behalf of state and local governments. In accordance with Section 8-27-207, TCA, all governments and quasi-governmental entities described above are eligible to participate. The LGGIF is included in the Comprehensive Annual Financial Report of the State of Tennessee, but the state does not retain any risk for losses by this fund. The state statute provides for the LGGIF to be self-sustaining through member premiums.

**JEFFERSON COUNTY NURSING HOME**  
**(a component unit of Jefferson County)**

**Notes to the Financial Statements**

**June 30, 2014 and 2013**

*Healthcare Industry*

The delivery of personal health care services entails an inherent risk of liability. Participants in the health care services industry have become subject to an increasing number of lawsuits alleging negligence or related legal theories, many of which involve large claims and result in the incurrence of significant exposure and defense costs. The Nursing Home maintains commercial insurance on an occurrence basis for medical malpractice liabilities. Insurance coverages are \$1,000,000 individually and \$3,000,000 in the aggregate annually. The State of Tennessee maintains litigation settlement limitations for governmental entities which are less than the Nursing Home's insurance coverages. Management intends to maintain insurance coverages in the future. The Nursing Home could be involved in litigation arising in the ordinary course of business; however, management is of the opinion that insurance coverages are adequate to cover any future potential losses on asserted claims. Management is unaware of any incidents which would ultimately result in a loss in excess of the Nursing Home's insurance coverages. The Nursing Home also maintains insurance for general liability, director and officer liability and property.

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and/or allegations concerning possible violations of fraud and abuse statutes and/or regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as repayments for patient services previously billed. Management believes the the Nursing Home is in compliance with fraud and abuse statutes, as well as other applicable government laws and regulations.

Management continues to implement policies, procedures, and compliance overview organizational structure to enforce and monitor compliance with the Health Insurance Portability and Accountability Act of 1996 and other government statutes and regulations. The Nursing Home's compliance with such laws and regulations is subject to future government review and interpretations, as well as regulatory actions which are unknown or unasserted at this time.

The Centers for Medicare and Medicaid Services ("CMS") have implemented a Recovery Audit Contractors ("RAC") program. The purpose of the program is to reduce improper Medicare payments through the detection and recovery of overpayments. CMS has engaged subcontractors to perform these audits and they are being compensated on a contingency basis based on the amount of overpayments that are recovered. While management believes that all Medicare billings are proper and adequate support is maintained, certain aspects of Medicare billing, coding and support are subject to interpretation and may be viewed differently by the RAC auditors. As the amount of any recovery is unknown, management has not recorded any reserves related to the RAC audit at this time.

**JEFFERSON COUNTY NURSING HOME**  
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**Notes to the Financial Statements**

**June 30, 2014 and 2013**

***Healthcare Reform***

In March 2010, Congress adopted comprehensive health care insurance legislation, the Patient Care Protection and Affordable Care Act and the Health Care and Education Reconciliation Act (collectively, the "Health Care Reform Legislation"). The Health Care Reform Legislation, among other matters, is designed to expand access to health care coverage to substantially all citizens through a combination of public program expansion and private industry health insurance. Provisions of the Health Care Reform Legislation become effective at various dates over the next several years and a number of additional steps are required to implement these requirements. Due to the complexity of the Health Care Reform Legislation, reconciliation and implementation of the legislation continues to be under consideration by lawmakers, and it is not certain as to what changes may be made in the future regarding health care policies. Changes to existing Medicaid coverage and payments are also expected to occur as a result of this legislation. While the full impact of the Health Care Reform Legislation is not yet fully known, changes to policies regarding reimbursement, universal health insurance and managed competition may materially impact the Nursing Home's operations.

**(10) Functional expenses**

The following is a summary of management's functional classification of operating expenses:

	<u>2014</u>	<u>2013</u>
Healthcare services	\$ 8,910,495	\$ 8,608,955
General and administrative	<u>2,550,236</u>	<u>2,493,206</u>
	<u>\$ 11,460,731</u>	<u>\$ 11,102,161</u>

**(11) Prior period adjustment**

A prior period adjustment was made to correct an error effective July 1, 2012. The Nursing Home's Statement of Net Position reflected bond premium and bond issuance costs related to general obligation bonds issued in 2007 by the County for the benefit of the Nursing Home. The Nursing Home is required to pay the County for the County's obligations under the bond issuance. The bond premium and bond issuance costs relate directly to the County obligation rather than the Nursing Home. The removal of the bond premium and bond issuance costs resulted in a net decrease in net position of \$110,018 as follows:

Bond issuance costs	\$ (163,737)
Bond premium	<u>53,719</u>
	<u>\$ (110,018)</u>

**JEFFERSON COUNTY NURSING HOME**  
**(a component unit of Jefferson County)**

**Schedules of Operating Revenue**

**Years ended June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
Routine services - Private ICF/SNF	\$ 1,523,565	\$ 1,632,717
Routine services - Medicaid ICF	5,476,150	5,480,551
Routine services - Medicaid SNF	136,912	169,668
Routine services - Hospice ICF	852,948	649,550
Routine services - Hospice SNF	-	-
Routine services - commercial insurance/HMO	468,332	629,401
Medicare - Part A revenue	3,036,466	2,934,624
Medicare - Part B ancillaries	303,879	338,500
Prior period revenue adjustments	(24,750)	(41,241)
Bad debts	(57,278)	2,078
Employee and visitor meals	8,042	5,490
Telephone	7,839	8,469
Other income	199	4,130
Satisfaction of donations restriction	<u>-</u>	<u>2,000</u>
<b>Total operating revenue</b>	<b>\$ <u>11,732,304</u></b>	<b>\$ <u>11,815,937</u></b>

**JEFFERSON COUNTY NURSING HOME**  
(a component unit of Jefferson County)

**Schedules of Operating Expenses**

**Years ended June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
<b>General and administrative:</b>		
<b>Salaries</b>		
Administrator	\$ 116,705	\$ 114,902
Assistant administrator	76,293	72,155
Administrative staff	210,138	196,215
Information tech	58,950	58,535
Payroll taxes	32,846	31,741
Forms and office supplies	38,072	37,258
Telephone	32,867	31,718
License and dues	25,112	24,041
Professional services - other	595	4,476
Professional services - accounting	20,375	18,606
<b>Insurance</b>		
Employee life insurance	8,936	8,193
Employee health insurance	980,315	932,394
Commercial insurance	95,629	95,437
Workers' compensation insurance	151,347	167,759
Retirement	573,438	574,917
Bank charges	-	161
Employee physicals	3,711	9,394
Training, seminars and conferences	3,582	6,352
Travel expenses	14,180	9,146
Advertising	9,435	8,878
IT services	16,869	11,355
Other compensation and awards	21,343	28,761
Flowers and gifts	2,508	2,633
Employee background checks	2,372	850
Minor equipment	27,472	23,365
Equipment rental	10,282	10,885
Postage and delivery	4,294	3,500
Barber and beauty expenses	8,311	9,579
Miscellaneous expenses	4,259	-
<b>Total general and administrative</b>	<u>\$ 2,550,236</u>	<u>\$ 2,493,206</u>
<b>Tennessee nursing home tax</b>	<u>\$ 356,000</u>	<u>\$ 356,000</u>
<b>Nursing</b>		
<b>Salaries</b>		
Director of nursing	\$ 81,941	\$ 80,464
Assistant director of nursing	58,365	55,845
Green house guide	-	9,769
Minimum Data Set	144,503	115,126
Unit managers	227,203	132,542
Registered nurses	111,862	109,874
Licensed practical nurses	1,140,506	1,245,906
Certified nursing assistants	1,870,998	1,815,069
Feeding assistants	49,518	41,642
Payroll taxes	293,558	288,245
Medical director	19,040	17,760
Supplies	261,498	239,127
Training, seminars and conferences	1,175	698
<b>Total nursing</b>	<u>\$ 4,260,167</u>	<u>\$ 4,152,067</u>

**JEFFERSON COUNTY NURSING HOME**  
(a component unit of Jefferson County)

**Schedules of Operating Expenses**

**Years ended June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
<b>Activities</b>		
Salaries		
Activities director	\$ 32,703	\$ 31,712
Activities staff	36,761	27,969
Payroll taxes	5,565	4,805
Supplies	10,549	7,600
Total activities	\$ 85,578	\$ 72,086
<b>Social services</b>		
Salaries		
Social services director	\$ 43,334	\$ 38,414
Social services staff	117,186	88,497
Payroll taxes	12,727	10,053
Total social services	\$ 173,247	\$ 136,964
<b>Dietary</b>		
Salaries		
Dietary supervisor	\$ 34,328	\$ 34,799
Dietary staff	337,189	337,889
Payroll taxes	30,318	30,355
Food	523,442	504,008
Supplies	39,743	41,934
Dietary consultant	31,850	27,850
Minor equipment	2,322	1,889
Total dietary	\$ 999,192	\$ 978,724
<b>Housekeeping</b>		
Salaries		
Housekeeping supervisor	\$ 35,745	\$ 37,200
Housekeeping staff	175,089	166,042
Payroll taxes	17,121	17,385
Supplies	47,075	32,124
Total housekeeping	\$ 275,030	\$ 252,751
<b>Laundry and linen</b>		
Salaries	\$ 106,938	\$ 113,635
Payroll taxes	8,967	8,453
Supplies	39,937	40,233
Minor equipment	462	-
Linen and bedding	20,747	9,655
Total laundry and linen	\$ 177,051	\$ 171,976



**JEFFERSON COUNTY NURSING HOME**  
(a component unit of Jefferson County)

**Schedules of Operating Expenses**

**Years ended June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
<b>Plant operation and maintenance</b>		
Salaries		
Maintenance supervisor	\$ 41,047	\$ 41,775
Maintenance staff	54,446	39,383
Payroll taxes	7,931	6,498
Gas	91,354	88,118
Electricity	166,404	160,870
Water and sewer	64,261	63,520
Supplies	136,422	78,264
Minor equipment	10,021	6,637
Pest control	9,553	7,488
Waste disposal	19,585	17,220
Grounds	12,026	10,333
Total plant operation and maintenance	<u>\$ 613,050</u>	<u>\$ 520,106</u>
<b>Ancillary services expenses</b>		
Medicare Part A - therapy	\$ 647,808	\$ 599,645
Medicare Part A - lab	30,856	22,476
Medicare Part A - other services	27,817	8,201
HMO/MCO physical therapy	41,510	63,175
HMO/MCO occupational therapy	40,909	52,344
HMO/MCO speech therapy	21,280	30,517
Medicare Part B - physical therapy	112,316	128,240
Medicare Part B - occupational therapy	98,419	63,355
Medicare Part B - speech therapy	50,430	79,503
Private pay - physical therapy	-	267
Private pay - occupational therapy	-	346
Private pay - speech therapy	-	171
Hospice - physical therapy	97	-
Hospice - occupational therapy	(229)	(425)
Hospice - speech therapy	60	-
Ambulance expense	82,421	51,047
X-ray	17,958	15,457
Transportation	5,217	3,944
Respiratory services	73,907	65,177
Total ancillary services expenses	<u>\$ 1,250,776</u>	<u>\$ 1,183,440</u>
<b>Drugs</b>		
Drugs Part A	\$ 278,780	\$ 355,388
Drugs Part D	22,838	25,517
Pharmacy consultant	10,249	10,019
Floor stock drugs and supplies	11,831	13,032
Total drugs	<u>\$ 323,698</u>	<u>\$ 403,956</u>
<b>Depreciation</b>	<u>\$ 396,706</u>	<u>\$ 380,885</u>
<b>Total operating expenses</b>	<u>\$ 11,460,731</u>	<u>\$ 11,102,161</u>

**JEFFERSON COUNTY NURSING HOME**  
(a component unit of Jefferson County)

**Nursing Home Statistics**

**Years Ended June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
Days in fiscal year	365	365
Total resident beds, end of year	160	160
Maximum patient days	58,400	58,400
Chargeable resident days	56,196	56,598
Percent of occupancy on chargeable days	96.23%	96.91%
 Total revenue	 \$ 11,732,061	 \$ 11,813,013
Average income per chargeable day	\$ 208.77	\$ 208.72
 Total expenses	 \$ 11,778,340	 \$ 11,408,896
Average expenses per chargeable day	\$ 209.59	\$ 201.58
 Average income per chargeable day	 \$ 208.77	 \$ 208.72
Average expenses per chargeable day	<u>(209.59)</u>	<u>(201.58)</u>
Average net income (loss) per chargeable day	\$ <u>(0.82)</u>	\$ <u>7.14</u>
 Average revenue per day	 \$ 32,143	 \$ 32,364
Average expenses per day	<u>(32,269)</u>	<u>(31,257)</u>
Average net income (loss) per day	\$ <u>(126)</u>	\$ <u>1,107</u>
 Total salaries	 \$ 5,161,748	 \$ 5,005,359
Average daily salary	\$ 14,142	\$ 13,713
 Total cost of meals	 \$ 999,192	 \$ 978,724
Meals served	174,351	174,634
Average cost per meal	\$ 5.73	\$ 5.60



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER  
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

The Board of Directors  
Jefferson County Nursing Home  
Dandridge, Tennessee

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Jefferson County Nursing Home (the "Nursing Home"), a component unit of Jefferson County, Tennessee, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Nursing Home's basic financial statements, and have issued our report thereon dated October 23, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Nursing Home's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Nursing Home's internal control. Accordingly, we do not express an opinion on the effectiveness of the Nursing Home's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT  
AUDITING STANDARDS* - Continued

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Nursing Home's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Nursing Home's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Nursing Home's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Zattimare Black Morgan & Cain, PC*

Knoxville, Tennessee  
October 23, 2014